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THE ENVIRONMENT FUND AND ADMINISTRATIVE AND OTHER BUDGETARY MATTERS

The cost of administering trust funds

Report of the Executive Director

Summary

Prepared in response to Governing Council decision 18/44 B, paragraph 3, the present report contains an interim analysis of the cost to UNEP of administering trust funds and, in particular, of whether that cost is covered by the 13 per cent administrative support charge levied on trust fund expenditures. This interim analysis indicates that the support charge effectively supports the administrative burden trust funds create and is also broadly sufficient to cover the administrative costs of additional counterpart contributions that are accepted as earmarked contributions in support of specific trust fund activities. The interim analysis also supports the initial conclusion that the administration of UNEP's current trust fund workload does not exert a significant drain on Environment Fund resources. However, there are suggestions that a more definitive analysis may actually indicate that the administrative burden created by trust funds may be slightly heavier than can currently be calculated under the present methodology. The report proposes that the current arrangements are maintained while being kept under review.

Suggested action by the Governing Council

The Governing Council may wish to:

1. Take note of the present report of the Executive Director on the cost of administering trust funds;

2. Request the Executive Director to keep the issue under review and to report to the Governing Council at its twentieth session on developments regarding the costs to UNEP of the administration of trust funds and related earmarked contributions.

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INTRODUCTION

1. By its decision 18/44 B, paragraph 3, the Governing Council requested the Executive Director to undertake a cost-management study of expenditure on administering trust funds, of resource shortfalls and of possible ways to overcome such a shortfall, if any, and to report thereon to the nineteenth session. The present report has been prepared in response to that request.

I. DEFINING THE ADMINISTRATIVE WORKLOAD GENERATED BY TRUST FUND ACTIVITIES

2. When UNEP is charged with administering a trust fund, it is responsible for, inter alia, implementing recruitment procedures, arranging for the payment of salaries and allowances of all staff paid from the trust fund, administering contracts for staff, consultants and supplies, ensuring adherence to the established rules for contracting of supplies and equipment, administering travel, accounting and reporting of income and expenditures, collecting and recording contributions to the fund, and for all correspondence relating thereto. It is responsible also for the preparation and revision of project documents and for the control of financial allotments within available resources, for the control of expenditures within approved allotments and for the control of staffing within approved staffing regulations.

3. Since most of the above tasks are clearly the same as those undertaken for UNEP programmes in general, there is no functional division of administrative units within UNEP and United Nations Office at Nairobi (UNON) between those that work on the Fund programme and those that work on trust fund activities. While theoretically possible, such a division would be duplicative and would involve an inefficient use of human resources, which would lead to yet higher costs. It may also be theoretically possible to set up a system of time-accounting specifically to record and cost hours of work relating to trust funds. Once again, however, the establishing, monitoring and reporting on such a division of staff-time would create prohibitive additional costs and an even higher administrative burden. This would be particularly hard to justify in a time of severe financial constraints across the programme.

4. Additionally, it is clear that a large proportion of the tasks listed in paragraph 2 above must be performed by administrative offices such as finance, human resource management, and conference and general services, which, following Governing Council decision 18/43, were transferred from UNEP to the newly established UNON on 1 January 1996. Since that time, there has necessarily been a period of reorganization as the new UNON services accommodate the work of other United Nations agencies in Nairobi as well as that of UNEP. This ongoing administrative reorganization has meant that it has not been feasible to give an accurate and up-to-date analysis of the proportion of work undertaken in administrative services with regard to UNEP trust fund activities. With these problems in mind, the following interim analysis has been compiled incorporating the best information currently available, using statistics for the biennium 1994-1995.

II. METHODOLOGICAL OUTLINE FOR ESTABLISHING AN INTERIM ESTIMATE OF THE ADMINISTRATIVE SUPPORT CHARGE

5. Under the current approved format of the United Nations accounts, with which UNEP complies, there is no direct way of separating the costs of administering trust-fund expenditures from those of other funds. In view of this constraint a methodology has been established to assess whether the current level of the 13 per cent administrative support charge effectively covers all necessary administrative costs incurred under trust fund activities. 1/

6. The methodology involves first establishing the "general overheads" 2/ of all UNEP programmes by source of funding. Next, UNEP's total income to cover administrative costs, as outlined in paragraph 7 below, are broken down against each source of funding. Then, the percentage expenditure on "general overheads" generated by trust-fund programmes is compared against the percentage contribution from trust-fund programmes to UNEP's total administrative costs. If the percentage contribution from trust-fund programmes to administrative costs is similar to the percentage expenditure on "general overheads", it may be assumed that the 13 per cent administrative overhead charge on trust funds generates sufficient resources to administer the "general overheads" that they create.

7. The administrative costs of managing these "general overheads" (see paragraph 2 above) are defined as the costs of services such as project management, personnel, finance, procurement and general administrative support, as financed from the regular budget, Environment Fund budgets, the trust fund and administrative support budget and contributions to administration financed by the GEF and counterpart contributions. It must, however, be noted that this interim analysis faces two significant problems in fully defining administrative costs. First, these calculations do not include any part of the cost of programme officers who may from time to time assist in the management of trust fund projects, nor do these figures include any costs of senior management in UNEP concerned with trust funds and related activities. Secondly, the cost of project-management work undertaken by the Fund Programme Management Branch has been excluded from this interim analysis because there is no objective means through the present UNEP accounting system for measuring the amount of work undertaken for projects financed by each source of funds. For these reasons, it would be fair to expect that the current interim analysis underestimates administrative costs incurred by trust-fund programmes.

1/ In this interim analysis statistics have not been included on the Trust Fund for the Multilateral Fund for the Implementation of the Montreal Protocol on Substances that Deplete the Ozone Layer with the exception of the secretariat costs.

2/ The "general overheads" of separate programmes under each source of funding are defined as the total costs of staff, consultants, travel and meetings charged to each fund.

8. The contributions of the regular budget and the Environment Fund to administrative costs are provided to support environmental activities of UNEP, while a separate account for administrative support to trust funds (the 13 per cent administrative support charge) is provided to support the activities of trust funds. If a comparison is made of the shares of contributions to cover administrative costs against the shares of the "general overheads", the following picture emerges:

	General overheads (%)	Contributions (%) to costs of administration
Environment Fund	63.1	64.8
Conventions trust funds	18.6	17.6
Other trust funds	11.8	15.1
GEF	6.5	2.5
	100.0	**100.0**

9. While allowing for the lack of precision in the estimates, this comparison provides a prima facie indication that the trust funds as a whole, excluding the GEF, contribute slightly more than the share of the "general overheads" that they create. However, if convention trust funds are taken separately then they contributed slightly less to administrative costs than their share of the "general overheads". This may be basically attributable to the greater use of earmarked counterpart contributions for Convention activities. Up to now, these counterpart expenditures have not been charged the 13 per cent administrative support deduction. In view of this, the administrative support charge on regular trust fund contributions has effectively been used to subsidise the administrative costs involved in supporting activities funded by counterpart contributions.

10. These conclusions suggest that the current 13 per cent administrative support charge imposed on trust-fund expenditures is at present broadly sufficient to cover the related administrative costs.

11. A word of caution is, however, called for on this conclusion. A separate attempt was made to measure the administrative costs involved in the management of trust funds by an ex post facto assessment of the work time used by project management, personnel and finance sections. This assessment suggested that the measurement of administrative costs of work related to trust-fund activities used above may have understated the actual work required for trust funds. Whereas staff in the Human Resource Management Service (HRMS) considered that they had spent 35 per cent of their time on trust-fund personnel, more or less in line with the 37 per cent indicated above (including GEF), the Finance Section staff assessed their use of time as being 47 per cent for trust funds, and the Fund Programme Management Branch considered they spent 49 per cent of their total time on trust funds.

12. Although these ex post facto assessments of time-use by individual staff members may be considered rather subjective, there are grounds for believing that the measurement of administrative costs may have understated the actual costs involved: whereas work on Environment Fund projects is basically standardized, each trust fund tends to have different requirements, including separate substantive and financial reporting. Project-management work for trust funds

also involves relatively more project revisions than other projects, since trust fund contributions are generally received during the course of the year to which they relate, which requires that projects are extended several times to reflect the timing of the receipt of additional resources.

III. CONCLUSION

13. The above interim analysis was conducted in accordance with Council decision 18/44 B. Its findings broadly support the maintenance of the current level of the administrative support charge at 13 per cent, and also suggest that the Environment Fund resources do not unduly subsidize trust fund activities. However, several factors point to the likelihood that the real cost of administering trust-fund programmes may actually be higher than can be stated using the current methodology. It has not been feasible to accurately incorporate the costs of the input of the various programme managers and the Fund Programme Management Branch incurred by trust-fund programmes. Nor is it presently feasible to undertake a comprehensive time-management study of the workload undertaken by all staff for activities under each source of funding during the ongoing reorganization of administrative services following the creation of UNON means that operational procedures are being reviewed and changed, and thus current estimates of the administrative costs can not be fully accurate.

14. Nevertheless, the fact remains that, as a United Nations programme, UNEP is subject to the financial rules and regulations in force for the United Nations system as a whole, and the actual definition of the level of the administrative support charge remains the responsibility of the General Assembly. In this light, it may be recalled that the figure of 13 per cent was endorsed by the Assembly in sections II and V of its resolution 35/217 of 17 December 1980. In sum, therefore, even if the real level of administrative costs is clearly established as being above 13 per cent, the current level will remain applicable until it is amended by the General Assembly.